

# Sustainability Accounting Standards Board

By Kelly Gilman and Jess Schulschenk

## Introduction

The Sustainability Accounting Standards Board (SASB), a registered non-profit organisation in the United States (US), was officially launched on 4 October 2012. SASB's stated mission is to develop and disseminate industry-specific accounting standards for material sustainability issues for the purposes of integrated reporting. The SASB standards are suitable for disclosure in standard filings (such as the Form 10-K and 20-F in the US context) but are broadly applicable and relevant globally for companies looking to report on material environmental, social and governance (ESG) issues.

SASB is developing standards for 88 industries in 10 sectors using a multi-stakeholder, transparent process. The standards describe both impacts as well as opportunities for innovation. Taken together "they characterise a company's positioning with respect to sustainability issues and the potential for long term value creation".

## Evolution

SASB was conceived following research conducted by the Initiative for Responsible Investment (IRI) at Harvard University on determining industry-specific material issues and associated key performance indicators (KPIs) for six industries. After an overwhelming positive response by business to the methodology developed, the idea for an organisation to be established that was the "definitive voice for materiality of sustainability issues and set industry tailored performance indicators for all industries" was born.

## Need for SASB

SASB emerges in the midst of growing awareness of the importance of integrating ESG and financial reporting. The practice of integrated reporting is gaining international prominence, with South Africa leading the way through the listing requirement by the Johannesburg Stock Exchange (JSE) that all public companies should produce an annual integrated report (or explain why not). Internationally, many countries are starting to follow suit with regulations coming into play calling for greater integration of financial and non-financial reporting. Furthermore, certain companies have adopted integrated reporting without national regulation requirements, but out of the identified need for and seeing the benefits of more effective and transparent communication of their performance and strategy holistically.

Despite these trends, there is still a lack of guidance for companies undertaking integrated reporting and a lack of comparability across companies and industries regarding the material issues disclosed. The Global Reporting Initiative (GRI) guidelines developed over a number of years have provided a wide range of sustainability reporting indicators whilst the International Integrated Reporting Council (IIRC) has been and is working to develop guiding principles for integrated reporting into a solid framework.

Professor Bob Eccles, SASB Chairman, notes that "The IIRC, whose target user audience is investors, is developing an overall framework for integrated reporting. Standards for financial information will be either IFRS or U.S. GAAP. SASB, who is also focused on investors, will provide the standards for the material nonfinancial information that goes into the integrated report. Complementing integrated reporting is sustainability reporting to stakeholders which will be based on the upcoming G4 Guidelines from the Global Reporting Initiative."

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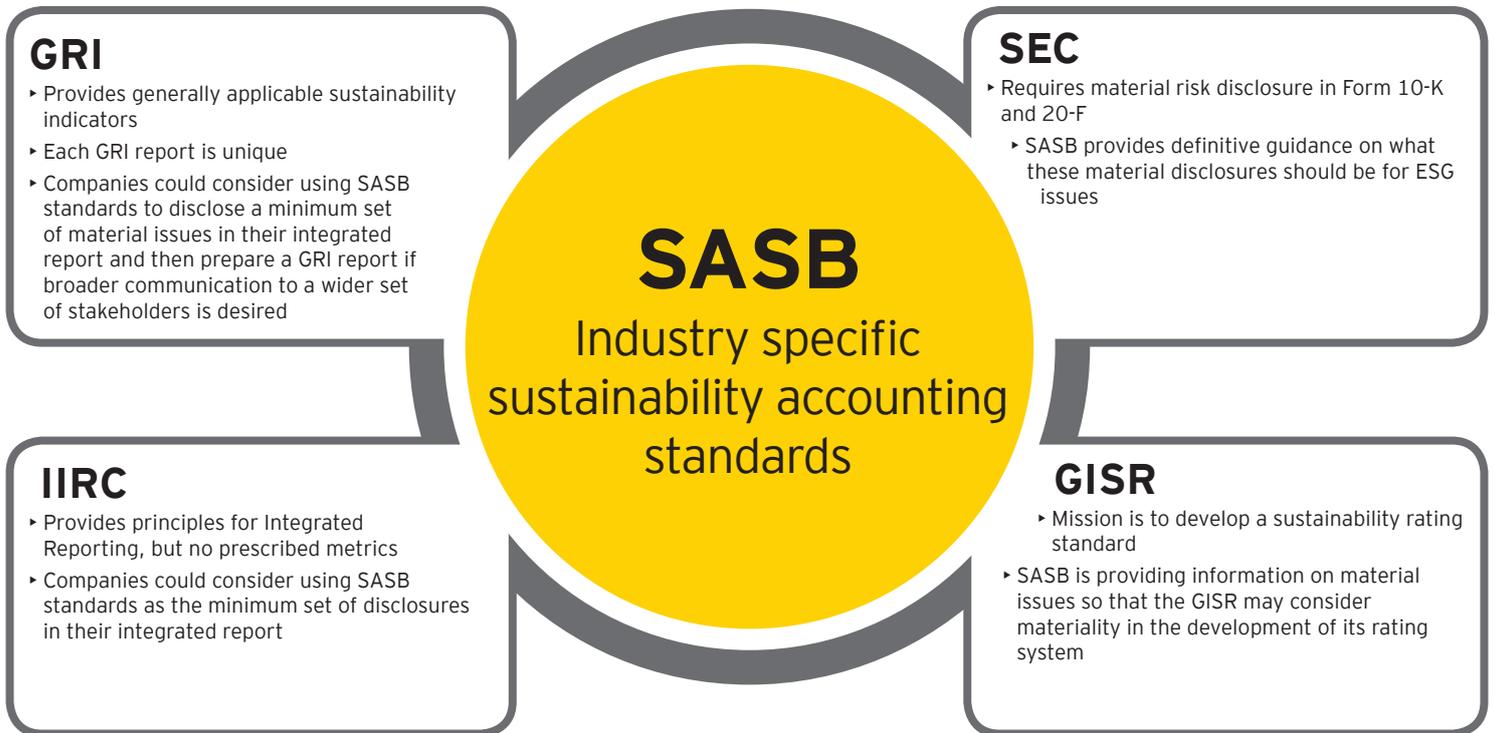
**Professor Bob Eccles**  
SASB Chairman

## Where SASB fits in

Whilst SASB is being developed primarily in the US market, the standards developed are useful for any organisation throughout the world looking to report on sustainability in an integrated manner.

"SASB standards serve two primary stakeholder groups," says SASB Founder and Executive Director Jean Rogers. "Through SASB standards, corporations have a cost-effective way to manage and disclose on the sustainability issues that are most germane to their industry.

Investors have decision useful-information that they can use to benchmark corporate performance on sustainability issues." SASB collaborates with other organisations to avoid duplication of effort through engagement of various organisations and integrating relevant existing guidance and ideas into its standards. In this way, SASB is complementary and does not see significant overlap with existing organisations, as reflected in the diagram below:



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**Dr. Jean Rogers**  
Founder and Executive Director | SASB

## Principles guiding standards development

SASB has established various principles to guide the development of the sustainability accounting standards. These include issuing standards when:

1. They are applicable to all investors on an evidence based approach
2. They are pertinent and relevant across an industry, again based on robust evidence
3. They are focused on driving long term value creation and risk mitigation
4. The expected benefits exceed the perceived costs
5. They are actionable by the companies
6. They are easily verified such that they are measurable, quantifiable when possible, comparable, replicable and auditable
7. They are objective and support decision making
8. They are of the highest quality possible at any given time
9. They embody the minimum set of standard criteria which include relevance, usefulness, applicability, cost-effectiveness, comparability, completeness, directionality and auditability
10. They are reflective of the views of stakeholders
11. They support the shift to integrated reporting
12. They support the convergence to international accounting standards

## Process

SASB is committed to a transparent multistakeholder process in the development of its sustainability accounting standards. The process is well defined and consists of the following steps:

1. SASB created the Sustainable Industry Classification System (SICS) to categorise industries according to their resource intensity and their sustainability innovation potential. The system is tied back to standard classification systems e.g. BICS. The SICS identified 88 industries.
2. SASB developed a materiality map as the starting point for understanding the relative materiality of issues per industry. The materiality map follows a three step process looking at:
  - a. Evidence of interest
  - b. Evidence of economic impact
  - c. Forward looking adjustment

Using these tests, the material issues are then ranked and a threshold is established by which material sustainability issues are determined for each industry. The SASB research team then reviews these material issues.

3. This is followed by in-depth industry research to provide context within which the sustainability issues are analysed, including industry trends, key environmental, social and governance issues. This research also includes the identification of existing metrics and practices used to quantify and articulate each material issue. The SASB research team then selects those KPIs and disclosures that are of the highest quality from the existing population or creates new ones where none exist or those that do are not of sufficient quality. The result is a set of strawman KPIs (i.e., draft outline of proposed KPIs for further revision) for the industry.

4. Thereafter Industry Working Groups (IWGs) are established to review the sustainability accounting standard developed by the SASB research team (including the set of strawman KPIs), providing comment and feedback to SASB. The IWGs are comprised of members with a depth of industry knowledge and expertise and members will come from one of the following interest groups:

- a. Market participants (investors, research analysts, exchanges)
- b. Corporations
- c. Public interest and intermediaries (government, NGOs, academics, accountants, auditors, consultants)

IWG membership is free and meetings are held virtually.

5. The SASB research team then incorporates the IWG feedback and publishes the performance indicators publically and requests comments thereon i.e. issues exposure drafts. Public comment is open for 30 days.

6. The SASB research team then incorporates the public comments into the standard.

7. Thereafter the standard is reviewed by the SASB Standards Council to ensure consistency, completeness and accuracy and compliance with the standards setting process with American National Standards Institute guidance and SASB principles. Upon their approval, the sustainability accounting standard is deemed complete and is published. The SASB Standards Council is comprised of experts in the development of standards, accounting and securities and environmental law.

This process is followed for all 10 sectors with a review of the industries within each sector happening simultaneously.

## Timeline

SASB has already released the exposure draft for the healthcare sector with the financials sector exposure draft to be made available soon. The table below sets out SASB's timeline to develop standards for each sector, with the aim of releasing one exposure draft each quarter as follows:

Timeframe	Sector
Q4, 2012	Health Care
Q1, 2013	Financials
Q2, 2013	Technology & Communication
Q3, 2013	Non-renewable resources
Q4, 2013	Transportation
Q1, 2014	Services
Q2, 2014	Resource transformation
Q3, 2014	Consumption
Q4, 2014	Renewable resources and alternative energy
Q1, 2015	Infrastructure

## Advantages

The two key advantages emerging from the SASB standards are that Investors will have a holistic view of a company's financial and non-financial performance, risks and opportunities whilst companies and investors will have access to freely available comparable sustainability data to use to benchmark and compare sustainability performance on material issues.

## Going Forward

A recent workshop hosted by Ernst & Young to explore challenges and opportunities experienced by companies in their integrated reported journeys suggested that companies are looking for guidance on how to determine materiality for sustainability issues and the ability to benchmark such measurements per industry. The launch of SASB signals an important milestone in the development of integrated reporting practice and, indeed, the integration of financial and non-financial performance and management into companies going forward. SASB is currently accepting applications for the IWGs and is on track to meet the deadlines in the table above.

Visit [www.sasb.org](http://www.sasb.org) for more information or contact Kelly Gilman ([kelly.gilman@za.ey.com](mailto:kelly.gilman@za.ey.com)) to find out more.



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